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1 RECORD OF ORAL HEARING
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3 UNITED STATES PATENT AND TRADEMARK OFFICE
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5
6 BEFORE THE BOARD OF PATENT APPEALS
7 AND INTERFERENCES
8

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10 Ex parte KURT C. MCCRAKEN
11 and ERIC ZIEGLER
12

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14 Appeal 2007-3081
15 Application 09/610,828
16 Technology Center 3600
17

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19 Oral Hearing Held: March 11, 2008
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23 Before MURRIEL E. CRAWFORD, DAVID B. WALKER, and
24 JOSEPH A. FISCHETTI, Administrative Patent Judges

25
26 ON BEHALF OF THE APPELLANT:

27
28 DAVID L. FEIGENBAUM, ESQUIRE
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34 The above-entitled matter came on for hearing on Tuesday, March 11, 2008,
35 commencing at 9:00 am, at The U.S. Patent and Trademark Office, 600
36 Dulany Street, Alexandria, Virginia, before Deborah Rinaldo, Notary Public.

PROCEEDINGS

MR. FEIGENBAUM: Hello. Good morning. I'm David Feigenbaum. I'm from Fish & Richardson in Boston. We're out on the east coast. My clients are three guys. They live in San Francisco on the west coast. They think they are entitled to a patent anyway.

It's been a long road to get here. We have been almost eight years at it. The case was filed in 2000 and we've had six office actions back and forth, an appeal that was withdrawn by the examiner for further prosecution. There's been a lot of paper back and forth. I think the examiner has had plenty of opportunity to search and we're really at a point to make a decision here.

JUDGE CRAWFORD: What did you say happened, the appeal was withdrawn? When was that and what happened?

MR. FEIGENBAUM: Well, "withdrawn" is the wrong word. The examiner decided to prosecute further. That was fairly early on.

JUDGE CRAWFORD: Were there new references applied after that?

MR. FEIGENBAUM: I believe there were, yes. We've also had two examiners. I didn't mention that. So what I want to do is give you just a short flavor for what this case is about and try to focus on one or two issues that are important here that I think are decisive.

The benefit that this invention provides is in two respects. One is that it encourages and facilitates the development and redevelopment of real estate in inner-city areas where sometimes there is distressed real estate. And we're talking about smaller buildings that aren't being kept up.

And because of this invention, the inventors have facilitated the flow

1 of capital and effort into the redevelopment of those buildings. That's
2 something that went on, of course, before the invention, but this invention
3 enables a much more free flow of capital into that effort.

4 On the other side of the coin, it gives an opportunity and a mechanism
5 for people who own properties and who want to participate in that market to
6 offer those properties into an investment entity in exchange for an interest
7 and then to participate in the effort that's being done by this invention to
8 improve the properties, evaluate which ones are fitting within a certain
9 profile and eventually to trade the improved properties for properties that
10 need improvement again.

11 That's a big advantage to these people who trade their properties in for
12 the interest because many of these people can't -- they are not interested and
13 don't have the skill in doing this redevelopment work. But they own
14 property and they would like to participate in the upside that's involved in
15 the value improvement that comes from doing that.

16 They want -- oftentimes these people would be elderly, people who
17 need liquidity. So it gives them an opportunity to trade those properties for
18 the interest, know that the value of their interest is going to rise with the
19 effort that's put in by the entity to do this and then ultimately be able to
20 liquidate their property.

21 So what you have is -- and we can go to the claim now if you want. I
22 think I would like to focus on claim 1. You'll understand, of course, that I'm
23 not making any concession about the other claims. I'm focusing on claim 1
24 as an example.

25 But claim 1 recites this combination of features. Without reading the
26 whole thing, just to go down through the paragraphs, the first paragraph

1 recites this notion of acquiring in tax-free exchanges these properties that
2 I've described.

3 The second paragraph, and I'm going to come back to it, talks about a
4 very important set of features of this invention which has to do with how
5 you manage and organize and account for the financial aspects of the
6 transactions.

7 The next paragraph explains that properties are exchanged. For
8 example, if one of you had a property that was a three-story apartment
9 building and it was in pretty good shape and you offered it to the investment
10 entity, the investment entity would look at that and say, This is not right at
11 the sweet spot of what we do. It doesn't meet our profile because it's
12 basically in good shape.

13 So the entity engages in tax-free exchanges to exchange those
14 properties for ones that they can put their effort into. That's what's referred
15 to in the element called exchanging.

16 Enhancing the value is the next element. That's the straightforward
17 point of making the property better. And the last element is this notion of
18 liquidity. You need to offer these investors an opportunity for liquidity, and
19 this recites that.

20 So our inventors were the first people to see that they could take
21 advantage of certain tax benefits, tax -- nontaxable transactions in
22 combination with this focus on real estate properties that could be brought
23 up and the ability to exchange them tax free for -- as they brought them up
24 for ones that needed help and ultimately to give every investor the
25 opportunity at least at some level to have liquidity.

26 So that was a combination that nobody had ever understood. We don't

1 deny that people knew about buying properties that were distressed and
2 improving them and selling them, but it took our inventors to understand the
3 combination of these features that really has provided a great benefit to --

4 JUDGE WALKER: Can I ask you a question there. I understand that
5 the case was pre-KSR, but after KSR, essentially what it sounds like I'm
6 hearing you say is that several of the elements were known and it really was
7 the combination that was new.

8 So if these are known elements performing their known function, why
9 doesn't KSR say that that's likely to be obvious? I don't see the
10 unpredictable results.

11 MR. FEIGENBAUM: The first point is that it was not known to do
12 the elements that are recited in the machine feature of this claim. So the
13 examiner asserts that it was. But in fact, it wasn't. So I don't think we need
14 to get to the question of KSR.

15 JUDGE WALKER: I think KSR is the key question because he does
16 present a reference talking about the first A through D, essentially those
17 being parallel to or that type of basis and logic and calculation being used
18 for mutual funds. And then why wouldn't that known concept of keeping
19 track of the basis of tax advantaged investments, capital gains and things of
20 that nature also apply to real estate?

21 MR. FEIGENBAUM: Well, I believe the examiner was wrong on
22 that point. I don't think Moreau, which is the reference cited for that point,
23 says anything at all relevant to A, B or C in the claim.

24 If you look at the language, it says, Using a machine to track each
25 investor's basis and his interest in the investment entity. And just to go on,
26 allocate each investor's basis in the interest in the investment entity among

1 real properties acquired by the investment entity and tracking the allocated
2 basis of each investor as a result of a succession of tax advantage exchange
3 transactions.

4 None of that is done on a mutual fund. It simply isn't done.

5 JUDGE WALKER: But Ward teaches an LLC is advantageous for
6 real estate transactions and it talks about donating real estate as your part of
7 the buy in exchange for part of the LLC. Why doesn't the combination of
8 Ward and Moreau reach that?

9 MR. FEIGENBAUM: Because they have nothing to do with one
10 another.

11 JUDGE WALKER: So are you suggesting the reason that they are
12 not combinable is they are not analogous art? Is that what you are
13 suggesting?

14 MR. FEIGENBAUM: They have nothing to do with one another.
15 Moreau says almost nothing. Let's get to it. It says simply that -- it's very
16 simple.

17 It says if you want to calculate how you've done on your investment,
18 the value of your investment, not the basis in a year, you look at what the
19 price is now compared to the beginning of the year, you consider the
20 dividends that were given to you and you calculate your take.

21 Well, that has nothing to do with this point, nor does it have anything
22 to do with the LLC. The LLC is fundamentally not an investment entity of
23 the mutual fund kind. It's what they call a pass-through instrument.

24 Because it's a pass-through instrument, it requires an enormously
25 complicated effort in following basis, allocating basis back to the assets,
26 tracking that basis as you exchange these properties and so on.

1 Moreau, the reference that was cited, has to do with mutual funds and
2 the price of a mutual fund which is publicly known on the market. It has
3 nothing to do with allocating the investor's basis back to the individual
4 stock. They don't do that.

5 JUDGE WALKER: But Hitchings does, doesn't it? It teaches like-
6 kind exchange and it also teaches that it would apply to any field in which
7 like-kind exchange is applicable.

8 MR. FEIGENBAUM: Hitchings, maybe I misread it, but I think all
9 that Hitchings is cited for and says is that you can identify properties like
10 cars that are used that ought to be bundled together and exchanged with
11 properties like new cars.

12 JUDGE WALKER: Right. But it says at the end of paragraph 28 the
13 invention is generally applicable to any type of like-kind exchange that
14 includes information that must be administered and managed. Why is that
15 not your system?

16 MR. FEIGENBAUM: What are they administering? They are simply
17 trying to figure out whether used cars -- a certain group of used cars should
18 be exchanged with a certain group of new cars.

19 JUDGE WALKER: Right. But they are doing it by matching up the
20 basis of the old cars and the new cars, are they not?

21 MR. FEIGENBAUM: Well, they are matching up the values. Not the
22 basis. I don't think basis has any concept in auto trading.

23 JUDGE FISCHETTI: Is not a capital gain a function of basis,
24 though?

25 MR. FEIGENBAUM: Capital gain is maybe a function of basis, but
26 that's not what we're claiming. We're claiming that -- the words of the claim

1 in B say, Allocate each investor's basis in his interest in the investment entity
2 among the real properties that underlie the investment. Capital gain doesn't
3 do that.

4 JUDGE FISCHETTI: In a mutual fund, though, it's a common money
5 that everybody's basis is basically -- is what everybody is cutting up the pie
6 against.

7 MR. FEIGENBAUM: I need you to see that that's a -- in a mutual
8 fund, the person's value in his investment is the current price. His basis is
9 what he paid for the shares in the mutual fund. That's at the interface with
10 mutual fund.

11 The claim is talking about something totally different. It's talking
12 about taking the investor's original basis and allocating it back through the
13 entity to the properties that -- the person that the entity invests in.

14 So let me give you an example. In our entity, two investors can have
15 different -- how do I say this? The value of two investors -- well, I've got to
16 say it differently.

17 Two investors can have different bases at the same moment through
18 the real estate that the entity owns projected back to the real estate that the
19 entity owns even though the value of the property at that time, the value of
20 the interest of the entity is a set value.

21 JUDGE FISCHETTI: I understand that distinction, but you are just
22 reciting basis here.

23 MR. FEIGENBAUM: I'm sorry to interrupt you. It's not just reciting
24 basis. It's the phrase "allocate the basis back" to the real properties.

25 In what sense does a mutual fund do that? If you own mutual fund
26 shares, I don't take your basis, allocate it back to the stocks that are owned

1 by that mutual fund and then account for changes in those bases over time
2 depending on whether the mutual fund trades one of these stocks for another
3 stock.

4 I don't do that. There's nothing like that done on a mutual fund
5 because it's a different kind of instrument.

6 And then C is the point I just made. The second point, tracking the
7 basis is a result of a succession of tax advantaged exchange transactions.
8 Mutual funds don't engage in tax advantaged exchanged transactions in the
9 stocks they own. It's an unrelated activity.

10 JUDGE WALKER: What about Hitchings in the abstract where it
11 says the tax basis for the relinquished assets is transferred to the acquired
12 assets and a further tax benefit is obtained?

13 MR. FEIGENBAUM: Tax basis for the relinquished assets is
14 transferred to the -- I would have to think about that but I assume they are
15 talking about the tax basis of the entity that owns the cars. Not the tax basis
16 of some investor. I'm sorry, I would just have to look at that further. I don't
17 think that it's relevant.

18 So my view of this is that the examiner has got three references on the
19 table. And when you put them all together, they don't get close to the
20 invention. One is Ward. And Ward says LLCs exist, they can take in
21 property of investors in exchange for the interest.

22 That's a broad -- this is just a broad corporate concept. It says nothing
23 in particular about real property, although I acknowledged that there is an
24 allusion, a mention of real property in there. It's fundamentally not about
25 how you use an LLC. It simply says you can take investment in, in
26 exchange for the interest.

1 Hitchings --

2 JUDGE WALKER: Wait a second. On Ward the first line in the
3 abstract is, LLCs offer an ideal alternative to other forms of business entities
4 for real estate investments.

5 MR. FEIGENBAUM: Sure. It says you could use an LLC as a basis
6 to hold real estate.

7 JUDGE WALKER: So everything in Ward it teaches in the first line
8 can fairly be applied to real estate.

9 MR. FEIGENBAUM: I don't dispute that. It could, sure. I think
10 even though it could, it's not particularly useful or instructive about what
11 you do with that.

12 The second reference is the Hitchings reference which in my reading,
13 as I said, talks about the notion of exchanging -- figuring out which used
14 cars you want to bundle together in exchange for which new cars in a certain
15 tax advantaged transaction. I don't dispute that it says that. I just don't think
16 it's particularly important or significant to this claim.

17 And Moreau, as I mentioned, really doesn't say much other than
18 people who own mutual funds can figure out how well they have done in a
19 year by a certain computation that doesn't have anything to do with
20 projecting their basis back and so on.

21 JUDGE WALKER: Let's go back to Hitchings for a second.
22 Hitchings talks about the accelerated depreciation leading to a basis that is
23 below the market value. So if the entity sells the car, which is the example
24 they use, then they have a tax issue where they have to make up the
25 difference between the depreciated basis, the accelerated depreciation, and
26 the market value.

1 How is that different? The basis happens to be because they have
2 taken an accelerated depreciation in the early --

3 MR. FEIGENBAUM: Well, they have to make an adjustment for
4 what happened relative to their basis.

5 JUDGE WALKER: Right. But they are still accounting for the basis
6 of the individual vehicles at the entity level.

7 MR. FEIGENBAUM: And what does this have to do with the
8 investor's basis, which is what my client talks about? It's the basis of the
9 investors in the unit, in the interest in this LLC that we're talking about on a
10 claim.

11 I don't dispute that tax-free transactions occur, and there needs to be
12 an accounting for them. But these three references together, I think, miss the
13 point even if you take them all together.

14 And frankly, I think the examiner knows that. And the reason I think
15 the examiner knows that, and I'll just focus for you, and I guess I'm just
16 about out of time, but I'll focus for you by pointing to -- this is in the
17 examiner's brief. I think this is really at the heart of it and I think you need
18 to ask yourself whether this is a fair analysis of what's gone on.

19 But if you look at page 17, this is at the very end of the part where the
20 examiner is responding to our position. And I can only -- he makes an
21 argument that I've already explained is not really pertinent here.

22 But putting aside the argument, I would just point out to you that here
23 is what we have in this case. The examiner found three references. They
24 show what they show. In my view they don't show a lot and they really
25 don't make this obvious.

26 The examiner recognized that he was lacking things and he basically

1 takes official notice. If you read through the record, there is official notice
2 over and over and over again. And then the examiner writes this long
3 paragraph that, to me, is trying to patch together what's missing from the
4 references by simply argument. There's no evidence. There's no support
5 here.

6 And so I don't -- you know, if you look at the MPEP on official
7 notice, it's pretty clear that -- two things are clear. One is you are only
8 supposed to take official notice of something that's absolutely indisputable.
9 So to me that would mean my claim says that the car is painted black and the
10 reference shows everything except that the car is painted red.

11 And the examiner says, well, you can buy black paint, you can buy
12 red paint. There's nothing new there. That's okay. I don't think that's the
13 case here. I think the examiner has filled in enormous amounts by simply
14 hand-waving.

15 And the second thing is that the MPEP is pretty clear that where the
16 applicant has challenged the official notice, and we've challenged it, I think
17 every time here, the examiner ultimately is supposed to come up with a
18 piece of evidence, real evidence.

19 JUDGE WALKER: What about the evidence he's provided? There
20 are several references that he's provided to support.

21 MR. FEIGENBAUM: Not to support the points that are missing from
22 those references, and the examiner essentially acknowledges that.

23 JUDGE WALKER: Where does he acknowledge that?

24 MR. FEIGENBAUM: I'm sorry. I haven't marked the places. But if
25 you read through his brief, you'll see that he says, I acknowledge that this
26 reference doesn't show this, but I take official notice of; I acknowledge that

1 this reference doesn't show this, but I take official notice.

2 JUDGE WALKER: When he says that, he's referring to the three
3 references in the rejection. He's saying Ward doesn't show X, but I take
4 official notice of it. Then when you raised the issue, he presented these
5 other references that generally show quite a bit about accounting.

6 MR. FEIGENBAUM: I didn't read the record that way. I read the
7 record as an acknowledgment, there are certain things that these references
8 don't show and that the gaps are filled in by explanation of the examiner.
9 Not by pointing to a reference. That's my reading of the record.

10 So I think to summarize, there are key features in the computing
11 machine paragraph of the claim that simply are not in these references
12 because they refer to this complicated watching, tracking and analysis of
13 basis over the course of these many transactions that have to go on in the
14 exchanges of the property, the taking in of the property and the providing of
15 liquidity.

16 And I think that the references have major gaps. So the first point is, I
17 think the examiner hasn't fully grasped the key features and therefore hasn't
18 rejected properly.

19 And secondly, I think the examiner has tried to fill in too much here
20 with, you know, essentially prose, examiner-written prose that says, well,
21 I've got these three core references and everything else I take official notice
22 of.

23 Again, we may be reading it differently, but that's certainly the way it
24 feels. Do you have any other questions?

25 JUDGE CRAWFORD: No questions. Thank you.

26 MR. FEIGENBAUM: Thanks very much for your time.

1 (Whereupon, the proceedings at 9:24 a.m. were concluded.)